

for the quarter ended 31 March 2017



Basel Pillar 3 disclosure



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contents

BASEL PILLAR 3 DISCLOSURE

- 01** Introduction
- 01** Overview of risk weighted assets
- 03** Credit risk weighted assets
- 04** Market risk weighted assets



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1966/010753/06 | Certain entities within the FirstRand group are Authorised Financial Services and Credit Providers. This report is available on the group's website: www.firstrand.co.za
Email questions to investor.relations@firstrand.co.za

INTRODUCTION

This quarterly Pillar 3 disclosure covers the operations of FirstRand Limited (FirstRand or the group) and complies with the Basel Committee on Banking Supervision's (BCBS) revised Pillar 3 disclosure requirements and the South African Reserve Bank (SARB) directive 11 of 2015.

OVERVIEW OF RISK WEIGHTED ASSETS

FirstRand applies the Basel framework to determine risk weighted assets (RWA). The framework consists of three pillars. This disclosure focuses on regulatory measures defined in Pillar 1, which requires banks to adopt specified approaches for measuring credit, market and operational risks and associated resulting RWA and capital requirements. Pillar 2 covers the consideration of whether additional capital is required. To promote transparency and effective risk management, Pillar 3 requires disclosure of approaches, exposures, associated RWA and minimum Pillar 1 capital requirements.

Risk measurement approaches

The following approaches are adopted by the group and its wholly-owned subsidiary, FirstRand Bank Limited (FRB) for the calculation of RWA.

Risk type	FRB's domestic operations	SARB approval date	Remaining FirstRand subsidiaries and FRB foreign operations
Credit risk	Advanced internal ratings-based (AIRB) approach and the standardised approach for certain portfolios	January 2008	Standardised approach
Counterparty credit risk	Standardised method	May 2012	Current exposure method
Market risk in the trading book	Internal model approach (IMA)	July 2007	Standardised approach
Equity investment risk	Market-based approach: Simple risk-weighted method**	June 2011	Market-based approach: Simple risk-weighted method**
Operational risk*	Advanced measurement approach (AMA)	January 2009	FirstRand Investment Holdings (Pty) Ltd (FRIHL) entities: ➤ Basic indicator approach (BIA), the standardised approach (TSA), AMA FirstRand Investment Management Holdings Limited entities: ➤ BIA Remaining subsidiaries and FRB foreign operations: ➤ TSA
Other assets	Standardised approach	January 2008	Standardised approach

* All entities were included in the approval for use of AMA (from January 2009) and TSA (from January 2008). Some entities were moved to FRIHL (unregulated prior to 2010) with a subsequent legal entity restructure.

** Subject to the threshold rules as per Regulation 38(5).

The following table provides the RWA per risk type and associated minimum capital requirements.

OVI: OVERVIEW OF RWA

R million	RWA		Minimum capital requirements [#]
	As at 31 March 2017	As at 31 December 2016	As at 31 March 2017
1. Credit risk (excluding counterparty credit risk)	476 041	468 064	51 175
2. – Standardised approach	108 658	103 310	11 681
3. – AIRB	367 383	364 754	39 494
12. Securitisation exposures in banking book	23 648	23 712	2 542
13. – IRB ratings-based approach	17	17	2
14. – IRB supervisory formula approach	1 486	1 432	160
15. – Standardised approach/simplified supervisory formula approach	22 145	22 263	2 380
Total credit risk	499 689	491 776	53 717
4. Counterparty credit risk*	18 353	17 002	1 973
5. – Standardised approach	18 353	17 002	1 973
6. – Internal model method	–	–	–
11. Settlement risk	–	–	–
7. Equity positions in banking book under market-based approach**	26 942	27 407	2 896
16. Market risk	21 337	22 463	2 294
17. – Standardised approach	6 553	5 296	705
18. – Internal model approach	14 784	17 167	1 589
19. Operational risk	113 231	113 231	12 173
20. – Basic indicator approach	8 652	8 652	930
21. – Standardised approach	20 471	20 471	2 201
22. – Advanced measurement approach	84 108	84 108	9 042
23. Amounts below the thresholds for deduction (subject to 250% risk weight)	13 887	12 640	1 493
24. Floor adjustment	1 206	1 206	129
Other assets	30 016	29 515	3 227
25. Total	724 661	715 240	77 902

* The current exposure and standardised methods are applied to counterparty credit risk. The BCBS standard on the standardised approach for measuring counterparty credit risk exposures will be implemented in September 2017. The group does not apply the internal model method to counterparty credit risk (row 6).

** The simple risk weighted method is applied to equity investment risk. The BCBS standard on equity investment in funds has not yet been implemented, rows 8 – 10 have, therefore, been excluded from this table. This standard will be implemented in September 2017.

[#] Capital requirement (excluding the bank specific individual capital requirement and domestic systemically important banks add-on) calculated at 10.75% of RWA (December 2016: 10.375%).

The following table analyses significant RWA movements for the quarter.

RWA ANALYSIS

Risk type	Movement	Key drivers
Credit risk		➡ Book growth and model updates.
Counterparty credit risk		➡ Volume and mark-to-market movements.
Market risk		➡ Volume and mark-to-market movements.

CREDIT RWA

The calculation of credit RWA for FRB's domestic operations is based on internally-developed quantitative models in line with the AIRB approach. The three credit risk measures, namely, probability of default (PD), exposure at default (EAD) and loss given default (LGD) are used along with prescribed correlations (dependent on the asset class) and estimates of maturity, where applicable, to derive credit RWA. Quantitative models also adhere to the AIRB requirements related to annual validation.

For certain portfolios in FRB's domestic operations and remaining entities in the group, credit RWA is calculated using the standardised approach, where regulatory risk weights are prescribed per asset class. Even though the remaining entities do not have regulatory approval to use the AIRB approach, internally-developed quantitative models are used for internal assessment of credit risk.

The following table presents a flow statement explaining variations in the credit RWA determined under the AIRB approach.

CR8: RWA FLOW STATEMENT OF CREDIT RISK EXPOSURES UNDER AIRB

<i>R million</i>	RWA
1. RWA at 31 December 2016	364 754
2. Asset size	1 160
3. Asset quality	(1 432)
4. Model updates	2 722
5. Methodology and policy	179
6. Acquisitions and disposals	–
7. Foreign exchange movements	–
8. Other	–
9. RWA at 31 March 2017	367 383

Credit RWA increased from R365 billion to R367 billion for the quarter ended March 2017.

Key movements in credit RWA included:

- ➡ Asset size: increase in the group's funding requirements and an increase in exposure to corporates.
- ➡ Asset quality: improvements in retail customer performance.
- ➡ Model updates: mainly changes in the commercial model.

MARKET RWA

IMA for general market risk was approved by the SARB for the group's domestic trading units. Regulatory capital for domestic trading units is based on the internal Value-at-Risk (VaR) model supplemented with a stressed VaR (sVaR). Both VaR and sVaR are calculated at a 99%, 10-day actual holding period level using 250 scenarios for each. VaR is calculated using the last 260 trading days' data and sVaR using 260 trading days' data during a predefined static stress period (2008/2009). For internal risk reporting purposes, an expected shortfall methodology calculated at a 99%, 10-day actual holding period is used over the same periods as VaR and sVaR. One-day VaR calculations are also used as an additional tool in the assessment of market risk.

The subsidiaries in the rest of Africa and the bank's foreign branches are measured using the standardised approach for regulatory capital and an internal stress loss methodology for internal measurement of risk. Capital is calculated for general market risk using the duration methodology. In addition to general market risk, specific risk capital is held based on the Basel III standardised approach duration method.

The following flow statement explains the variations in the market RWA determined under IMA.

*MR2: RWA FLOW STATEMENT OF MARKET RISK EXPOSURES UNDER IMA**

<i>R million</i>	RWA		
	VaR	Stessed VaR	Total
1. RWA at 31 December 2016	9 296	7 871	17 167
2. Movement in risk levels	(3 709)	1 326	(2 383)
3. Model updates/changes	–	–	–
4. Methodology and policy	–	–	–
5. Acquisitions and disposals	–	–	–
6. Foreign exchange movements	–	–	–
7. Other	–	–	–
8. RWA at 31 March 2017	5 587	9 197	14 784

* *The group does not use the incremental risk charge and comprehensive risk measure approaches.*

The decrease in VaR from December 2016 to March 2017 is due to the following:

The December 2016 VaR dataset included the December 2015 market volatility, as VaR is calculated using the last 260 trading days' data. This dataset has since rolled off and the December 2015 market volatility does not form part of March 2017 VaR calculations. Based on this, VaR has decreased over the quarter ended 31 March 2017 and normalised below the stress VaR number.



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